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In the Supreme Court of the United States

OCTOBER TERM, 1965

No. 222

ATLAS-PACIFIC ENGINEERING COMPANY,
a corporation,
Petitioner,

vs.

GEO. W. ASHLOCK COMPANY,
a corporation,
Respondent.

Petitioner's Supplemental Brief in Support of Petition for a Writ of Certiorari

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Introduction

Petitioner files this Supplemental Brief to bring to the attention of the Court a recent important case—*Georgia-Pacific Corp. v. United States Plywood Corp.*, 146 U.S. Patents Quarterly 228, ... F Supp. .....—which bears upon the question of apportionment. That case (*Georgia-Pacific*) was decided June 15, 1965. The opinion (by Judge Herlands of the United States District Court for the Southern District of New York) was published on July 26, 1965 in Volume 146 of the United States Patents Quarterly. It is pertinent to the difficult problem of apportionment of dam-

ages. Question No. 2, raised in the Petition in the case at bench (Petition, pages 2 and 3), relates to apportionment. Pertinent excerpts from the opinion are given below and at greater length in the Appendix hereto.

Georgia-Pacific Emphasizes the Difficulties Confronting a Lower Court Where a Patent Relates to Only a Part of a Complex Machine and the Court Is Asked to Apportion Damages to Reflect This Fact

In the case at bench, the patent in suit relates to only part of a complex machine, most of which is covered by expired patents (Petition, pages 10 and 11). In *Georgia-Pacific,* the patented device (striated plywood) was simpler but the problem of apportionment looms very large in the opinion. The patent in suit (Deskey Patent No. 2,286,068) related to striation of the face veneer or ply of plywood. The back veneer or ply of G.P.'s infringing plywood was gouged out to avoid warping, such gouging being covered by another patent to a G-P employee (Leonardson Patent No. 2,782,468). That is, the infringing article in *Georgia-Pacific* embodied the old unpatented three-ply wood lamination plus a feature (rear gouging) of another patent, not owned by the claimant,[1] as well as a feature (striation of the face veneer) covered by the Deskey patent in suit. In the case at bench, the machine in question embodied features of several expired patents as well as the feature of the patent in suit.

The court in *Georgia-Pacific,* on the authority of several earlier lower court cases and on the authority of *Aro Mfg. Co. v. Convertible Top Replacement Co.,* (referred to as *"Aro II"*) 377 US 476, 502-514; 84 S.Ct. 1526, 1540 to 1546; 12 L.Ed.2d 457, 477 to 484, (1964), held that by reason of the 1946 amendment to the patent statutes (Act of August 1, 1946, chap. 726, sect. 1, 60

1. This was a declaratory judgment suit with Georgia-Pacific as plaintiff seeking a declaration that U.S. Plywood's Deskey patent was invalid and not infringed. U.S. Plywood counterclaimed for infringement of the Deskey patent.

Stat. 778; former 35 USC, (1946 ed.), sects. 67 and 70) profits of the infringer no longer constitute a measure of damages.

In reaching this conclusion, the Court in *Georgia-Pacific* made frequent reference to the difficult question of apportionment; see pertinent excerpts from the opinion in the Appendix hereto. Typical of these references are the following (page references being to U.S. Patents Quarterly, Vol. 146):

At page 252:

> ". . . —the often insuperable problem of apportioning the infringer's total profits on the sale of a product between the patented and nonpatented features, the injustices sometimes visited on infringers on whom the burden of making the apportionment had fallen, and the length and expense of the hearings."

At page 249, in footnote 23 quoting from Congressional hearings on the Act of 1946:

> "Frequently a suit for patent infringement involves the infringement of only an improvement in a complex machine, and it is impossible to apportion profits due to the improvement."

At page 253:

> "It will be particularly difficult for the patent owner to prove that the infringement divered [meaning "diverted"] a measurable quantity of sales from him in those cases in which the infringement was of an improvement patent, or of a patented part sold in conjunction with non-patented parts—and these are just the classes of cases in which the apportionment of profits has proved such a source of concern.[37]"

At page 253, in footnote 37, quoting from *Cincinnati Car Co. v. New York Rapid Transit Corp.*, 66 F2d 592, 593; 19 USPQ 40, 41 2nd Cir., 1933:

> "The situation was . . . one so common in patent accountings, in which the invention was not of the article as a whole, but of a small detail. The difficulty of allocating

profits in such cases has plagued the courts from the outset, and will continue to do so unless some formal and conventional rule is laid down, which is not likely. Properly, the question is in its nature unanswerable."

Georgia-Pacific Implies That the Problem of Apportionment Has Been Solved or Greatly Alleviated by Elimination of Profits of the Infringer as a Measure of Damages. But That Problem Is Still with Us in Unmitigated Form and Will So Continue Until the Lower Courts Are Aided by This Court

At 146 USPQ 249, 250 *Georgia-Pacific* states:

"Indeed, if the Special Master's construction were the correct one, the 1946 amendment granted to the patent owner the option of choosing whether or not to seek the ascertainment (and recovery) of the infringer's profits, and thus the power to necessitate proceedings before a master. This would be an ironic and implausible result in view of the impressive testimony before the House Committee on Patents that a serious defect of the then existing statute was the extent to which patentees were able to abuse their privilege of seeking a recovery of the infringer's profits, and to turn the proceedings before the master into an instrument for oppressing the infringer.[23] Merely eliminating the mandatory accounting for profits, which had hitherto preceded the setting of a reasonable royalty, would in no way have alleviated this problem, inasmuch as the patentees' abuses of the existing procedures stemmed from their privilege of choosing to recover the infringer's profits."

Footnote reference 23 appearing in this part of the opinion is quoted *in toto* in the Appendix hereto, at pages 2-4. That footnote sets forth a statement by Assistant Commissioner of Patents Conder C. Henry before a committee of Congress in connection with the then pending 1946 Act. This statement includes the following which appears at page 250 of 146 USPQ:

"The legislative history indicates that the most troublesome abuses of the then existing statute occurred when the infringement was of an improvement patent on a complex

machine. However, as was already noted, Congress seems to have provided a sweeping resolution to the problem by eliminating the recovery of profits qua profits in all cases. The statute does not authorize a different remedy for the owner of an infringed item which was patented and sold as an entirety, or which provides the entire market value of the article of which it is a part, than it authorizes for the owner of an improvement patent."

At page 253 the Court refers to "the basic statutory purposes" of the present patent damages statute (35 USC 284) as being that "of effecting a sharp reduction in the number of proceedings before masters and avoiding the frequently insoluble problems of apportioning profits."

This implies that the problem of apportionment is no longer with us. But the case at bench proves that the problem of apportionment is still with us, whether the basis of monetary recovery is profits of the infringer, damages adequate to compensate the plaintiff, or a reasonable royalty.

This problem will remain with us in unalleviated form until this Court lays down guidelines.

The Rationale of the Decisions Below in the Case at Bench Is That the Interest of the Public in Having Unfettered Use of Expired Patents Must Give Way to Private Interest and to Perpetuation of the Monopoly of Expired Patents if the Problem of Apportionment Proves to Be Difficult

The problem of apportionment is difficult. *Georgia-Pacific* and cases and authorities there cited say so. The District Court in the case at bench said so in the following words:

> "28. The Court finds that it is neither possible nor practical to separate the parts from the whole of the overall Ashlock olive pitting machine for the purpose of assessing damages on an apportionment basis." (Finding of Fact No. 28, Appendix to Petition, pages 27 and 28)

The Court of Appeals affirmed (Footnote 7 to the Court of Appeals opinion, at page 35 of Appendix to Petition).

But the result of refusing to apportion damages because apportionment is difficult is to shift the burden to the public and to deny the public the benefits (free use of the invention) which is supposed to flow from the expiration of a seventeen year patent monopoly. To that extent, *Brulotte v. Thys Co.*, 379 US 29, 85 S.Ct. 176, 13 L. Ed. 2d 99 is thwarted.

This Court should provide guidelines to lessen the task of apportionment, or it should tell the lower Courts that the public importance of apportionment compels that it be carried out regardless of difficulty.

The Time Is Ripe for This Court to Review the Question of Apportionment Because the Last Time This Court Gave Full Consideration to the Question Was in 1912

Research on the part of Petitioner's counsel[2] has demonstrated that the latest case in which this Court gave full consideration to the question of apportionment was *Westinghouse Electric & Mfg. Co. v. Wagner Electric Co.* 225 US 604; 32 S. Ct. 691; 56 L. Ed. 1222, decided in 1912. The only later cases of this Court that Petitioner's counsel has found which cite *Westinghouse* are as follows:

Duplate Corp. v. Triplex Safety Glass Co., 298 US 448, 457; 56 S. Ct. 792, 796; 80 L. Ed. 1274, 1281, decided in 1936, disallowed a reasonable royalty deduction from the profits of the infringer, to reflect patentable contributions made by the infringer.

Sheldon v. Metro-Goldwyn Pictures Corp., 309 US 390, 402; 60 S. Ct. 681, 685; 84 L. Ed. 825, 832, decided in 1940, discussed *Westinghouse* in relation to recovery of damages for copyright infringement.

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2. Authorities consulted included Walker on Patents, Deller's Edition (1937) and its 1964 Cumulative Supplement; U.S. Code Annotated, Title 35 (1952 Ed.) including the 1964 Cumulative Pocket Part; and the Cumulative Digest of U.S. Patents Quarterly, Vols. 1 through 143 (1929 to the end of 1964), under the topic of "Accounting—Apportionment." Also, the *Westinghouse* citation was Shepardized, from which the cases discussed in the text were gleaned.

Mishawaka Rubber & Woolen Mfg. Co. v. Kresge Co., 316 US 203, 206; 62 S. Ct. 1022, 1024; 86 L. Ed. 1381, 1385, decided in 1942, cited *Westinghouse* in relation to damages in a trademark suit.

Marconi Wireless T. Co. v. U.S., 320 US 1, 50; 63 S. Ct. 1393, 1416; 87 L. Ed. 1731, 1758, decided in 1943, cites *Westinghouse* for the proposition that, where a defendant has added valuable non-infringing improvements, he is not liable for monetary benefits resulting from his improvements.

Bigelow v. RKO Pictures, 327 US 251, 265; 66 S. Ct. 574, 580; 90 L. Ed. 652, 661, decided in 1946, was an anti-trust case. It cited *Westinghouse* as authority for the proposition that, if the defendant's wrongful action has made it impossible to show what proportion of his profits is attributable to his wrongdoing, then plaintiff is entitled to all of his profits.

The latest of these cases was decided nearly twenty years ago (*Bigelow*, on February 7, 1946). It was an anti-trust case, not a patent case, and it was decided before the 1946 amendment to the patent damage statutes and long before the 1952 Patent Act, *Aro II* and *Brulotte*.

It is time that this Court finish the task that was commenced in *Aro II* and foreshadowed in *Brulotte;* that it reconsider old cases which were decided in a different climate of opinion regarding patents, at a time when the practice of awarding profits of the infringer was in full bloom; and that this Court tell the lower Courts that the public must not be denied the benefits intended to flow from the expiration of patents even though a difficult apportionment problem is involved.

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(Appendix Follows)

Appendix

Pertinent excerpts from the opinion in *Georgia-Pacific v. U.S. Plywood,* 146 USPQ 228-267, are set forth in this appendix. The opinion is very lengthy (forty pages) and it contains copious footnotes. Only those parts of the opinion pertinent to the question of apportionment are set forth herein.

Excerpt from pages 246-250, with footnotes omitted

This legislative history[17] is not entirely free of ambiguity.[18] However, it is clear that Congress was dissatisfied with the existing law because the determination of the infringer's profits seemed necessary in virtually every case in which the patent owner sought a monetary award; and this resulted in long and costly hearings before masters and insoluable problems of apportionment. Obviously, a determination of the infringer's profits was necessary in those cases in which the patent owner sought these profits as the basis of his recovery. However, Congress interpreted the 1922 Act as requiring an accounting for profits even in those cases in which the patent owner merely sought a reasonable royalty.[19] Thus, in enacting the 1946 amendment Congress intended at the very least to enable a patentee who sought a recovery based only on a reasonable royalty to avoid the time and money-consuming procedure of an accounting for profits. In other words, Congress eliminated any mandatory requirement that there be an accounting for profits.[20]

The Special Master maintains that this was all Congress intended to accomplish by the 1946 amendment.[21] However, his interpretation not only clashes with explicit statements in the legislative history,[22] but it leaves unsolved the major problems which motivated the 1946 legislation.

If the Special Master's theory were correct, the result would presumably be the avoidance of some accountings for profits, but not a drastic reduction of such accountings because the patentee would still have the right to seek a determination of the amount of the

infringer's profits and of his own damages, and to recover the greater of the two amounts. The patent owner's exercise of this right would entail another of those expensive and protracted hearings before a master, with the attendant problems of apportionment, which Congress clearly sought to eliminate.

Indeed, if the Special Master's construction were the correct one, the 1946 amendment granted to the patent owner the option of choosing whether or not to seek the ascertainment (and recovery) of the infringer's profits, and thus the power to necessitate proceedings before a master. This would be an ironic and implausible result in view of the impressive testimony before the House Committee on Patents that a serious defect of the then existing statute was the extent to which patentees were able to abuse their privilege of seeking a recovery of the infringer's profits, and to turn the proceedings before the master into an instrument for oppressing the infringer.[23] Merely eliminating the mandatory accounting for profits, which had thitherto preceded the setting of a reasonable royalty, would in no way have alleviated this problem, inasmuch as the patentees' abuses of the existing procedures stemmed from their privilege of choosing to recover the infringer's profits.

In the light of the grave concern expressed in the legislative history over the problems of apportionment of the infringer's profits[24] and the delay and expense[25] which arise during the ascertainment of profits, and in view of the specifically expressed purpose of attempting to eliminate such accountings[26] it seems clear that the legislation had a more ambitious goal than the mere elimination of mandatory accountings for profits. This goal was the avoidance of all, or nearly all, accounting for profits before masters;[27] and it was to be accomplished by doing away with their basic raison d'être, i.e., by eliminating the infringer's profits as an independent measure of the patent owner's recovery.

Footnote 23 on pages 249 and 250

23. See e.g., letter from Mr. Fish to Mr. Howson, supra note 22; statement of Mr. Conder C. Henry, Assistant Commissioner

of Patents, before the House Committee on Patents, 1946 House Hearing 7-10:

> Now, how has this present act been administered and what has been its effect on party litigants?
>
> The relief that a patent owner needs against an infringer to protect his rights in his patent and to compensate him for past infringement is an injunction to prevent future invasion of his right and damages for past infringement. This the law now accords him in addition to the profits made by the infringer which are attributable to the unauthorized use and sale of the infringed invention. It is just at this point, that is, the determination of profits and damages and the manner of proving the same before masters, that difficulties and injustices arise in the adjudication of claims for patent infringements.
>
> Frequently a suit for patent infringement involves the infringement of only an improvement in a complex machine, and it is impossible to apportion profits due to the improvement. In such circumstances the proceedings before masters, which are conducted in accordance with highly technical rules and are always expensive, are often protracted for decades and in many cases result in a complete failure of justice.
>
> I fully agree with Judge Evan A. Evans, senior judge of the Seventh Circuit Court of Appeals, in his speech before the patent Law Association in Pittsburgh, in 1944, when he said, that the rule holding an infringer liable as a wrongful trustee for the patent owner—
>
> > is not workable or practicable and is used by plaintiffs and their counsel to beat and bludgeon a competitor until he; or it, be exterminated. It is not damages that are sought, but the extermination of a competitor.
>
> By making it unnecessary to have proceedings before masters and eliminating the element of profits except as an

element of general damages in patent infringement suits and empowering equity courts to assess general damages, the measure represents proposed legislation which in my judgment is long overdue.

The legislative history indicates that the most troublesome abuses of the then existing statute occurred when the infringement was of an improvement patent on a complex machine. However, as was already noted, Congress seems to have provided a sweeping resolution to the problem by eliminating the recovery of profits qua profits in all cases. The statute does not authorize a different remedy for the owner of an infringed item which was patented and sold as an entirety, or which provides the entire market value of the article of which it is a part, than it authorizes for the owner of an improvement patent.

Excerpt from page 252, with footnote 33 appended

No matter what name the successful patent owner ultimately applies to his recovery (whether "profits" or "damages"), if it is to be measured by the amount of the infringer's profits, it would require the ascertainment of those profits. This in turn would necessitate an accounting for profits, whether before a master or before the court, which would be open to all the criticisms which were leveled at such proceedings in the testimony before the House Committee on Patents—the often insuperable problem of apportioning the infringer's total profits on the sale of a product between the patented and nonpatented features, the injustices sometimes visited on infringers on whom the burden of making the apportionment had fallen,[33] and the length and expense of the hearings.

33. Note 23 supra. But see Cincinnati Car Co. v. New York Rapid Transit Corp., 66 F.2d 592, 19 USPQ 40 (2d Cir. 1933). The Second and Sixth Circuits do not allow the owner of an infringed improvement patent to recover the infringer's entire profits, even though the patent owner shows that apportionment is impossible.

Excerpt from page 253, with footnote 37 appended

[12] The question arises as to whether, in those cases in which the plaintiff seeks to utilize "profits" as we have suggested, this interpretation will perpetuate the problems that arose when "profits" were independently recoverable. However, the court concludes that this construction of section 284 of the 1952 Act will comply with the basic statutory purposes of effecting a sharp reduction in the number of proceedings before masters and avoiding the frequently insoluble problems of apportioning profits. These results will stem from the prerequisite that the patent owner must first establish, as a matter of evidence, the foundation fact that he would have made a measurable portion of the infringer's sales, if the infringer had not entered the field, before the amount of the infringer's profits on these sales becomes evidentially competent, material and relevant to the factual determination of the patent owner's lost profits.

This will not always be an easy hurdle for the patent owner to surmount. Indeed, USP was unable to clear it in this case (Report at 91-107). It will be particularly difficult for the patent owner to prove that the infringement divered a measurable quantity of sales from him in those cases in which the infringement was of an improvement patent, or of a patented part sold in conjunction with non-patented parts—and these are just the classes of cases in which the apportionment of profits has proved such a source of concern.[37]

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37. See, e.g., Cincinnati Car Co. v. New York Rapid Transit Corp., supra note 33, at 593, 19 USPQ at 41:

> The situation was * * * one so common in patent accountings, in which the invention was not of the article as a whole, but of a small detail. The difficulty of allocating profits in such cases has plagued the courts from the outset, and will continue to do so unless some formal and conventional rule is laid down, which is not likely. Properly, the question is in its nature unanswerable.